



CALIFORNIA ECONOMIC DEVELOPMENT INITIATIVE

NEW TOOLS FOR A NEW ECONOMY

An informational briefing from The Governor's
Office of Business and Economic Development

NEW CALIFORNIA INCENTIVES:

AB93 & SB90 reshape and strengthen the state's economic development tax programs to bolster California's business environment and put Californians back to work. Building upon the framework of existing targeted programs, these bills redirect roughly \$750 million annually from the current geographically limited Enterprise Zone program to three new business incentive programs.

**A LOOK AT THE NEW
PROGRAM COMPONENTS...**

SALES TAX EXEMPTION

The existing sales tax credit for businesses located in Enterprise Zones will be expanded to a statewide sales tax exemption on manufacturing equipment or research and development equipment purchases by companies engaged in manufacturing or biotechnology research and development. A business will be allowed to exclude the first \$200 million equipment purchases from the state share of sales tax (4.19%) beginning on 7/1/14. The sales tax exemption will be available statewide until 6/30/22.

HIRING CREDIT

The hiring credit is for businesses located in census tracts with the 25 percent highest share of both unemployment and poverty in the state. The hiring credit also applies to current Local Agency Military Base Recovery Areas (LAMBRA) and Enterprise Zone boundaries excluding wealthy areas. The hiring credit also reinstates the boundaries for two recently expired Enterprise Zones in Antelope Valley and Watsonville. The hiring credit will be available for the hiring of long-term unemployed workers, veterans within 12 months of separation from service, people receiving the Federal earned income tax credit, ex-offenders and recipients of CalWorks or general assistance. The hiring credit will only be allowed to taxpayers who have a net increase in jobs. The hiring credit will be 35 percent of wages between 1.5 and 3.5 times the minimum wage for a period of five years. In five pilot areas designated by GO-Biz the credit will be calculated on wages starting at \$10 per hour. The hiring credit is available for employees hired between 1/1/14 and 1/1/21.

INVESTMENT INCENTIVE

The California Competes Credit will be created and administered by GO-Biz. Businesses will have the opportunity to compete for available tax credits. Criteria for competition includes the number of jobs to be created or retained, the extent of poverty in a business development area, a minimum compensation limitation and a set job retention period. Approval of any proposed incentive will be made by a five member committee composed of a representative from the Treasurer's office, Department of Finance, GO-Biz, the CA Senate and CA Assembly. Approved credits may be recaptured if a business fails to fulfill the terms and conditions of the contract. 25% of these credits will be designated for small businesses.

FORMER ENTERPRISE ZONE PROGRAM

Taxpayers will be allowed to continue using Enterprise Zone carryover credits for 10 years and will be able to continue to earn hiring credits for employees hired prior to January 1, 2014.



AB93 & SB90 VS. FORMER ENTERPRISE ZONE LAW



**Enterprise Zones
Former Program**



**Governor Brown's
Proposal - AB93 & SB90**

Manufacturing Equipment Sales Tax Exemption



Enterprise Zones
Former Program



Governor Brown's
Proposal - AB93 & SB90

Incentive Type

- Income Tax Credit

- Sales Tax Exemption

Value of Incentive

- Limited by income earned in the zone

- Eliminates California portion of sales tax (4.19%)

Maximum Annual Amount

- \$1 million of equipment for non-corporations; \$20 million for corporations

- \$200 million of equipment regardless of entity type

Getting The Incentive

- Claim made when annual income tax return is filed

- Benefit immediate - no state tax paid at time of purchase

Business Location

- Must locate in enterprise zone

- Anywhere in California

Equipment Qualified for Tax Incentive

- Basic manufacturing equipment - no research and development

- Basic manufacturing equipment AND
 - R&D for manufacturing & biotech
 - Addition of necessary tenant improvements (ex: clean rooms)

Hiring Credit



Enterprise Zones
Former Program



Governor Brown's
Proposal - AB93 & SB90

Middle Class Wages

- NO - credit based on wages paid UP TO \$12 an hour

- YES - credit based on wages above \$12 an hour and up to \$28 an hour (or above \$10 an hour base in limited pilot areas).

Max Credit Amount

- \$36,000 per employee (five year total, 2,000 hours)

- \$56,000 per employee (five year total, 2,000 hours)

Credit Calculation

- 50% of wages in first year. Declines 10% each year to zero for a total of 150%

- 35% of wages each year for a total of 175%

Employee Qualifications

- Extensive. Consultants hired to claim business' credits for them

- Persons unemployed 6 months, veterans within one year of separation, Earned Income Tax Credit recipients, ex-offenders and recipients of CalWorks or general assistance.

Poverty Area Targeting

- Zone boundaries are gerrymandered for interests other than reducing poverty

- Areas based on census tracts with highest unemployment and poverty rates as well as LAMBRAS and current enterprise zone boundaries (excluding wealthy areas).

Retroactive Availability

- Yes

- No

Credit to Replace
Current Employees

- Yes - common use of program

- No - employer gets credit only for increasing jobs

Incentive Transparency

- No - tax information is confidential

- Yes - Tax credit info will be publicly posted on FTB webpage

California Competes Incentive Credit



**Enterprise Zones
Former Program**



**Governor Brown's
Proposal - AB93 & SB90**

Incentive Transparency

- No - Tax information is confidential

- Yes - All California Competes incentive awards will be made public and award information must be posted on the GO Biz webpage

Expanding Businesses

- Businesses can only expand in an enterprise zone

- Location can be ANYWHERE in California

Attracting Businesses

- Businesses wishing to move to California can only locate in an enterprise zone

- Location can be ANYWHERE in California

Return On Taxpayer Dollars

- Incentivizes low paying jobs

- GO-Biz negotiates amount of credit based on factors including the number of jobs, location and new capital investment.